

## CHAPTER I

### INTRODUCTION

#### 1.1. Research Background

Cash holding is one of important elements that can give a brief information about the overall performance of the firms and also the most liquid asset that own by the firm. Cash holding is stated in the financial report by the firms as cash and cash equivalent accounts. Cash and cash equivalent is shown in every firms that listed in stock market. The reason of it because cash is the fundamental basic of the firms itself. Cash holding of the firms can be determine is good or bad.

Firm value become one of the issues in the way of valuating the company in the market. Method that use by stakeholder or investor commonly can be bias if not using a proper technique. Share prices right not only the way to valuate the firm's value. Share prices of a company can be boost by the manager to increase their income by using a lot of way. Sometimes in a good technique using good financial management and risk management to avoid loss or using a bad technique like fraudulent act and manipulate the accounting report to show the boost up accounting status of company. Arthur Andersen and Enron case is one of the biggest accounting scandal in the world. Involving not only the Big Five of Accounting Firm but also the big company like Enron. This scandal happen in 2000s until

2003 resulted in stated of chaos in United States. But until now, manipulating accounting book or fraudulent act should not be done and the lesson can be taken from the Arthur Andersen and Enron case. That share prices not only the way by the firm to provide an information for the investor but the investor should look much more deeper in the accounting book of the firm that investor willing to invest. Cash holding can be one of the aspect that can be observe and can be one of the consideration to decide by the investor. Cash holding can represent the way of the firm is finance and the plan by the firm to expand the company in the future. Firm valuation and cash holding become one of aspect to analyse the financially independent of a company and the way of the firm.

Based on pecking order theory, firm will choose retained earnings as the priority for financing, and then choose debt and finally issue equity which is issuing shares. Internal financing is better compared to external financing inside the point of view of pecking order theory. But contrary from the theory, firms in Indonesia try to issuing the shares throughout market to increase their cash holding while also increasing their firms value throughout the trust that the firm that already go public will be value as transparent firm because they announce their financial report annually and also audited. Agency theory also become one of the concern when firm try to issuing shares. Because the decision making inside the firms is not only come from the manager but also come from the shareholder. From this, the

cost will appear to cover the differentiation between manager and the shareholder.

Firms should determine their cash holding in the right way. Having a lot of cash might have a problem and so having a little cash also can be bad. On static trade-off theory, the good one for holding cash is by weighting the cost and benefits of holding cash. One of the cost holding cash is when the cash is not create a good return to increase the revenue of the firm because it is only remain in cash account. But the benefit of holding cash is that the firm can using several motives like speculation or precaution about something will happen in the future. According to Ferreira & Vilela (2004) explain that the benefits related to cash holding there are several which are: reduces the likelihood of financial distress, allows the pursuance of investment policy when financial constraints are met, and minimizes the costs of raising external funds or liquidating existing assets. Cash holding also discussed using the static trade-off theory and the pecking order theory by previous research.

The proportion of cash holdings can be affected by several factors. Prior researchers already conducted many researches relate to the determinants or factors that influence the proportion of cash holdings. The empirical findings of Magerakis (2015) suggest that cash holdings are positively related to investment opportunity and industry cash flow volatility. Cash holdings also negatively affected by cash flow, net working

capital, capital expenditures, leverage, tax expenses, age, and size (Magerakis, 2015).

Cash holding will affect to firm value throughout share price. Fama (1998) revealed that the value of the firm will be reflected from its share price. Firm value is very important because with high corporate value will be followed by high shareholder wealth (Bringham Gapensi, 1996). The higher the stock price the higher the value of the firm. High corporate value is the desire of the owners of the firm, because with a high value shows the shareholder prosperity is also high. The market price of the firm's stocks formed between the buyer and the seller at the time of the transaction is called the market value of the firm, since the stock market price is considered to be a reflection of the true value of the firm's assets. The value of a firm formed through a stock market indicator is influenced by investment opportunities. And cash holding will influences indirectly to firm value throughout share price of the firm. Firm value of the firm will increase when the share price of certain firm also increase, and the effect of increases of share price because of the increase in cash holding of the firm itself. The chain reaction of increases of cash holding in the firm will eventually effect in firm value through share price in the market.

According to the research background explained above and the inconsistency of previous research results bring new curiosity to conduct new research with title **“The Effect of Cash Holding on Firm Value in Indonesian Listed Firms”**.

## **1.2. Research Problem**

Cash holding is not well represent the value of the firm. Cash holding is one of the essential aspect that observe not only by the investor but also by the creditors. Cash holding is become one of the parameter to measure financially independent and also the value of the firm throughout the cash holding of the firm.

This problem lead to the question, is there any effect of cash holding on firm value in firms listed on Indonesia Stock Exchange?

## **1.3. Research Objectives**

Purpose of conducting this research as follows :

- To provide an overview about the effect of cash holding on firm value in Indonesian firms.
- To investigate how the effect and relationship of cash holding on firm value in Indonesian firms.

## **1.4. Research Contribution**

By learning how the effect of cash holding to firm value in Indonesia, hopefully this research could give more benefit in developing knowledge and for the need of :

### **1. Theoretical Contribution**

This research purposed to give knowledge and archival form in accounting literature. The result of the research could be used as the

reference for the next research topic. Give insight and ideas about what to be search in the future time not only for the development for this country but also the world in economics to help solving the problem in similar topics.

## 2. Practical Contribution

### a. For the Academic

Hopefully the result for this research become the main reference for the future researcher. To develop and also increase the extend by gaining more datas and variable in similar topic that not included in this research.

### b. For the Investor

Investor can observe the circumstances in the real situation based through this research to help make decision about investment to the firm. And also this research can be a consideration besides the usual way to analyse the firm.

## 1.5. Writing Structure

This research was prepared systematically as the following :

### CHAPTER I INTRODUCTION

Chapter I is an introduction in the preparation of the research which consist of background, research

problem, research objectives, research contribution and writing structure.

## **CHAPTER II      LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

Chapter II contains theoretical framework and previous literature review used to support the critical thinking and used as references to construct the framework and hypothesis development.

## **CHAPTER III      RESEARCH METHOD**

Chapter III contains of data related to the research, it includes population and sample, sample criteria, data collection method, measurement variable, data analysis techniques, and hypothesis testing method.

## **CHAPTER IV      DATA ANALYSIS AND DISCUSSION**

Chapter IV contains the result and discussion of the research by observing the data processing result and analysis. This chapter provides information whether the hypothesis meet the criteria, accepted or rejected.

## **CHAPTER V      CONCLUSION**

Chapter V contains conclusion of the research, limitation and suggestion for future research.